

New Initiatives for Glass-Steagall

by Claudio Celani

May 25—As the Italian political system is rapidly disintegrating under the destructive impact of the EU-induced austerity, a few forces are pushing for the only policy that could not only reverse that trend, but also force a global change: a reform of the banking system after the Glass-Steagall model.

No fewer than 11 draft bills for banking separation have been filed in the two houses of Parliament, and the Finance and Treasury Committee of the Italian Senate has put a discussion of the Senate bills on its agenda. However, the discussion has been postponed for months now, as the government's populist activism has forced the legislature to discuss its flurry of so-called "reforms."

All of the draft bills, except one, call for strict separation between commercial banks and investment banks, mentioning explicitly the 1933 Glass-Steagall Act. Outstanding among those bills are those filed by Sen. Giulio Tremonti and others, two filed by the Lega Nord party, and one by Sen. Giuseppe Vacciano and 48 Senators from the M5S party. These initiatives occur in the context of an aggressive campaign for restoring Glass-Steagall by Movisol, the LaRouche movement in Italy,

However, the Democratic Party—which rules the government in coalition with the centrist NCD party—has filed its own draft bill which, while paying lip service to the historical Glass-Steagall, adopts the EU regulation of ringfencing and bail-in, and maintains the system of universal banking. This draft is clearly aimed at torpedoing true reform, which does not currently have the votes to pass in the Senate.

Things could change, however, after the European Parliament vote, which saw a sweeping success for the M5S and a severe defeat for the conservative Forza

Italia (FI) party. These results will shake up the political balance nationally, and it is believed that FI leader Silvio Berlusconi will force early general elections.

In this scenario, by the time a new Parliament is in place, the Senate might be called to discuss a new draft bill, which is more advanced than any so far introduced. The new bill was drafted by Tuscany Regional Councilman Gabriele Chiurli, and might be discussed by Parliament thanks to a constitutional rule that allows Regional legislatures to forward draft legislation proposals to the national Parliament. Chiurli, an independent, filed his draft on May 22.

The new bill, unlike all the others, does not delegate the government to write the legislation, but it does specify changes to be introduced to the existing legislation that governs the banking sector. It also has an updated critique and a rejection of the proposed EU regulations. It consists of eight articles.

Article 1 describes the "finalities":

1. "The current law aims at introducing the principle of banking separation, between commercial and investment banks, to the purpose of protecting citizens' savings. Such a purpose can be achieved only through strictly separating

the financial activities of deposits and credit related to the real economy from those related to high-risk investments and speculation on national and international markets."

2. "Banking separation also pursues the aim of avoiding the diversion of public funds for the purpose of preventing the failure of credit institutions at taxpayers' expense."

Article 2 changes the 1993 "Single Act on Banking and Credit Laws," which established a national register (charter) for banks, adding to Article 13 that "the Register is divided into two sections, denominated as follows: a) commercial banks; b) investment banks."

Article 3 defines what commercial banks are, and what they are allowed to do: "Commercial banks can offer their customers only low-risk investments, including sovereign bonds and state-participation bonds, on the condition that: a) invested capital is no larger than two-thirds of the total amount deposited in the banking institution itself; b) invested capital is no more than EU250,000.

"It is prohibited for commercial banks: a) to directly



*Tuscany Regional Councilman
Gabriele Chiurli*

or indirectly perform any activity proper to investment banks and more generally to all financial companies that are not authorized to collect deposits from the public; b) own equity or establish agreements of a commercial nature with investment banks, brokerage firms, financial companies that are not authorized to collect deposits among the public.”

Commercial banks “are explicitly obliged to operate in substantial balance between deposit deadlines and use of financial resources.”

Article 4 defines what investment banks are and prohibits any official from an investment bank from having a role in commercial banks, and forbids investment banks to have equity in, or agreements, with commercial banks.

Article 5 says that within one year from the law’s entering into force, currently chartered banks must communicate to the central bank in which part of the National Register they want to be chartered, “having previously resolved incompatibilities as per the current law.”

Article 6 mandates Parliament to draft a “different fiscal treatment for commercial banks and investment banks, aimed at favoring the former, acknowledging their role of fundamental support to the real economy of the country.”

Article 7 establishes a series of sanctions for violations of the law, and **Article 8** is the formal clause that the law comes into force the day after its publication in the *Gazzetta Ufficiale*.

In the introduction, it says that although the discussion on separating banking activities has gone on in all countries, “rules recently introduced at the European level seem to be inadequate and, according to some observers, they reflect an excessive influence from the financial industry, which maintains the possibility of supporting investment banking activities through the commercial/retail sector.

“In fact, by introducing a separation of activities but maintaining at the same time the universal bank model, the door is left open to entanglement between the two sectors. The evidence of this is provided by the fact that the EU law prescribes the use of the so-called bail-in mechanism—the self-bail-out of the crisis-ridden institution, including expropriation of deposits—in case of failure of a universal bank which is considered as ‘systemic,’ putting ‘stability of the system’ before protec-



EIRNS/Flavio Tabanelli

Movisol, the LaRouche Movement in Italy, has spurred the drive for a Glass-Steagall law, in its organizing across the country. Here, the sign (“Separate the Banks”) is located on Leonardo da Vinci’s canal in Cesenatico, on the Adriatic Sea.

tion of savings. It goes so far as to establish that in the resolution, speculative debts—in the first place financial derivative contracts—enjoy protection if this is necessary for the stability of the system.

“In other words: the payment of derivatives, including ‘toxic products,’ is guaranteed, if that is determined to be necessary to maintain the stability of the system, even if depositors are damaged. All this represents exactly the opposite of the principle historically established by the Glass-Steagall Act and eventually adopted by all civilized countries.”

The draft bill will now be discussed in a committee of the Tuscany Regional Council, and will eventually go to the floor for debate and a vote. If approved, it will automatically be forwarded to the Chamber of Deputies and the Senate, and will undergo the usual procedure to become national law.

“In case this goes wrong at any stage, we . . . will not surrender: we are ready to take to the street and collect the necessary signatures to introduce the draft bill as a Law of Popular Initiative,” says Councilman Chiurli on the website of his movement, *Democrazia Diretta*.

It is expected that other Regional legislators will follow Chiurli’s example (indeed, four Regional Councils have already approved a Glass-Steagall resolution (Tuscany, Lombardy, Veneto, and Piedmont), adding to the grassroots pressure on national legislators.